



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Testimony of
The Connecticut Insurance Department
Before the
Insurance and Real Estate Committee
February 22, 2011

House Bill 6307—An Act Concerning Third-Party Administrators

House Bill 6307—An Act Regulating Third-Party Administrators has been raised at the request of the Connecticut Insurance Department. The Department would like to thank the Co-Chairmen of the Insurance and Real Estate Committee for raising this bill on our behalf.

You may recall that this initiative was before your Committee during both the 2009 and 2010 legislative sessions. The proposal before you today reflects extensive negotiations between the major health carriers in the state and the Insurance Department.

The issues that have led to the introduction of this bill have not changed and, in fact, one could argue that the need for passage has increased. As more employers and plan sponsors self-fund their employee benefit plans, which we now estimate to be close to 50%, these same plan sponsors are outsourcing the administration of the plans to third party administrators. Third party administrators, or TPAs, perform the tasks traditionally performed by insurance companies such as premium billing and collection, enrollment, distribution certificates and other member materials, utilization review, and claims processing. Yet TPAs operate in the state without any licensing requirements and absent any statutory oversight of their practices. Since they are not required to be licensed or regulated in Connecticut as they are in 41 other states, we have no way of knowing who is selling their services as a TPA, and whether they are qualified or financially stable, but we estimate that at least 100 or more third party administrators operate in Connecticut.

Also, consumers are frequently confused and are often unaware that their health insurance coverage is self-funded. For example, a consumer's insurance card and other plan documents often carry the name of a licensed company. If a consumer has a complaint, they often call the number on the back of their insurance card and find they are not insured by that company. The consumer may contact the Department, only to find that we lack the authority to assist them. This bill allows the Department to better understand which TPAs are operating in our markets in an effort to help consumer understand their rights.

To give you a sense of the magnitude of this issue, consider a few statistics as you review this legislative proposal. In calendar year 2010, the Insurance Department's Consumer Affairs Division received 1,161 administration related health care complaints related to fully insured plans. The Department recovered \$835,550 in remedies for the complainants. The Department averages approximately 444 complaints a year for

administration related complaints from individuals covered under self-funded plans which are administered by TPAs.

In addition to providing the Insurance Department with oversight over claim and administrative practices, the proposed bill will require all TPAs to be licensed in the State of Connecticut. In addition, they will be required to have written contractual agreements with purchasers of their services that provide explicit provisions regarding obligations and responsibilities with respect to claims handling, and all other standards and services pertaining to activities to be administered by the TPA. Licensed insurers who sell TPA functions to self-funded plan sponsors will not have to undergo separate TPA licensing, but will be subject to Department oversight for their TPA activities. Today, when they act as a TPA on a self-funded plan, we have no authority over the companies' practices.

The bill would also provide the Department with authority to access and review the TPAs' books and records, and require annual financial filings to enable us to ensure that the TPAs have adequate financial resources to meet their obligations as well as oversight of advertising, sales and marketing practices, and subject the TPAs to market conduct examinations by the Department.

We ask that you support our proposal to provide the Insurance Department with statutory authority to license and regulate third party administrators of health plans by extending our authority to oversee fair and accurate administrative practices.